DIGITISATION OF BANKS IN INDIA AND ITS SOCIO-ECONOMIC IMPACT- A STUDY OF SELECTED BANKS

SYNOPSIS

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INTRODUCTION:

The banking sector of a country is the backbone of its economy. Indian banking sector since independence has witnessed tremendous transformation. Till 1990, the industry was largely controlled by the government and focused on furtherance of the welfare state ethos. The year 1991 brought about the regime of liberalisation, privatisation and globalisation. Banking industry was catapulted into the forefront with sweeping changes that encouraged competition and resolved to bring it at par with the international standards of banking.

BANKING INDUSTRY IN INDIA: A BRIEF HISTORY

Pre-Independence Period (1786-1947)

Many major Indian banks failed to survive during the pre-independence period. Their failure can be attributed to the following reasons:

- Indian account holders had become fraud-prone
- Lack of machines and technology
- Human errors & time-consuming
- Fewer facilities
- Lack of proper management skills

Post-Independence Period (1947-1991)

In 1947, all banks were privately owned, and most people were dependent on local money lenders for financial assistance. The government decided to nationalise the Banks, under the Banking Regulation Act, 1949 in order to further the following reasons:

- Consolidation of funds to improve the economic condition of the country
- Increase in efficiency
- Boost the rural and agricultural sector of the country
- Open new avenues for employment of the people
- Profit earned by Banks were diverted towards the betterment the public
- Reduce competition to ensure increased work efficiency

Liberalisation Period (1991-Till Date)

To Enhance profitability of the nationalised Public Sector Banks, a committee was set up under the leadership of Shri. M Narasimham to reform the Indian banking industry. The introduction of Private sector banks in India was the first significant step towards opening up the banking industry, other measures taken included:

- Setting up of branches of the various foreign banks in India
- Nationalisation of Banks was abolished
- Parity between public and private sector banks in all spheres of operations
- Foreign Banks could start joint ventures with Indian Banks
- NBFCs were allowed to set up their branches across India
- Digitisation of Indian banking system facilitating electronic fund transfer

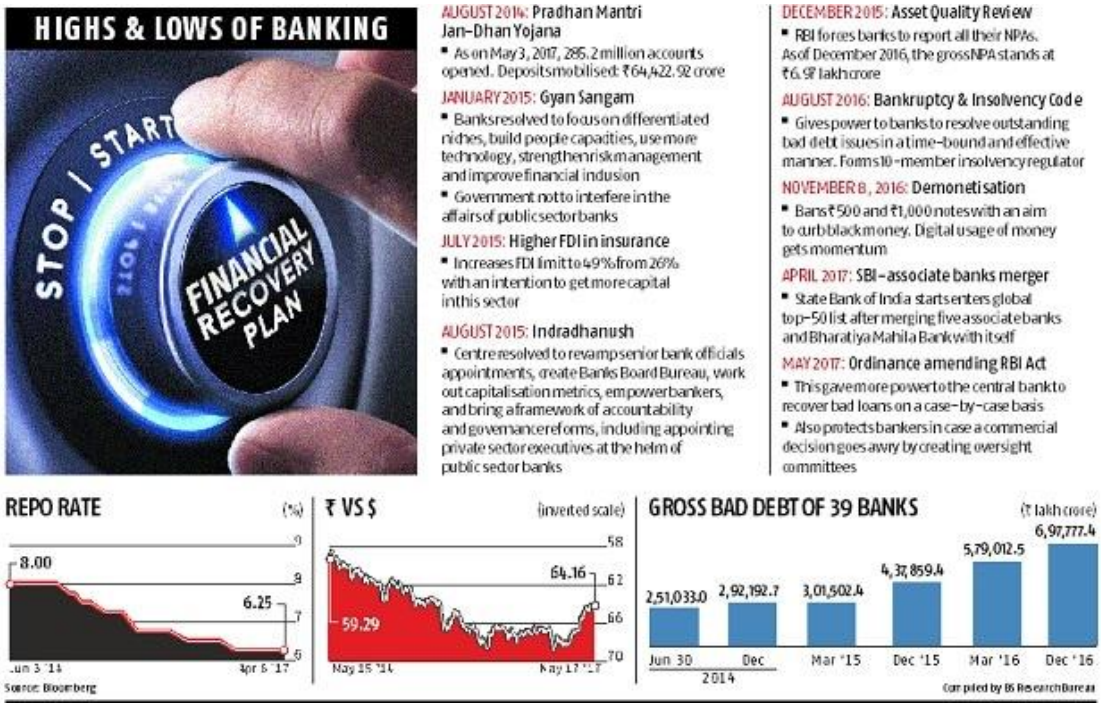
The present study also aims to map the advent and progress the digitization of payment methods over the past three decades. The table below presents a summary of the methods along with the dates when they were introduced.

Timeline of Introduction of Digital Payment Methods in India

Method	**Concept**	**Year of introduction**
Credit cards	Cardholders can overdraw funds to pay for goods and services but only with vendors who accept cards	1980 by Central Bank of India
Debit cards	Requires a supporting bank account, mechanism for spending own money and is limited to the money outstanding balance in the account.	Between 1988 and 1993
Internet Banking/ e-Banking/ Online Banking	Customers of a bank can transact and complete other financial activities through the website of the bank. NEFT, RTGS, or IMPS are the popular techniques	ICICI Bank in 1996
Mobile Banking	All the services offered by a bank can be accessed through a mobile phone or tablet	In the form of SMS Banking in 2002
Mobile/Digital Wallets	Digital apps linked to a bank account, credit/debit card to make payments seamless and secure.	Oxigen Wallet launched in July 2004
Electronic Clearing System (ECS)	Mode of electronic funds transfer between two bank accounts, wherein a clearing house acts as the intermediary.	October 2008
Unified Payments Interface (UPI)	Real-time payment system between two bank accounts on a mobile platform, developed by NPCI	11 April, 2016
Aadhar enabled Payment System	Banks play the role of allowing online interoperable financial inclusion transaction at point of sale through Aadhaar authentication	Launched in 2018 (NPCI)

BACKGROUND AND RATIONALE OF THE STUDY

- Year 2014 witnessed significant financial sector milestones:
    - After more than a decade, new bank licenses were awarded by the RBI to IDFC & Bandhan Financial Services
    - A new monetary framework was put in place, with 6 reviews per year as compared to 8 earlier
    - Shri Narendra Modi launched the Pradhan Mantri Jan Dhan Yojana – a scheme for opening bank accounts to foster financial inclusion. More than 130 million accounts opened within 5 months
    - Government splits chairman and managing director's post in public sector banks, signaling its intention to initiate long-pending reforms in the banking sector
    - RBI brings out final guidelines on banks becoming insurance brokers
    - Government allocates capital to public sector banks based on their efficiency, clearly indicating its stance — perform or perish


HIGHS & LOWS OF BANKING
STOP | START
FINANCIAL RECOVERY PLAN
AUGUST 2014: Pradhan Mantri Jan-Dhan Yojana
As on May 3, 2017, 285.2 million accounts opened. Deposits mobilised: ₹64,422.92 crore
JANUARY 2015: Gyan Sangam
Banks resolved to focus on differentiated niches, build people capacities, use more technology, strengthen risk management and improve financial indusion
Government not to interfere in the affairs of public sector banks
JULY 2015: Higher FDI in insurance
Increases FDI limit to 49% from 26% with an intention to get more capital in this sector
AUGUST 2015: Indradhanush
Centre resolved to revamp senior bank officials appointments, create Banks Board Bureau, work out capitalisation metrics, empower bankers, and bring a framework of accountability and governance reforms, including appointing private sector executives at the helm of public sector banks
DECEMBER 2015: Asset Quality Review
RBI forces banks to report all their NPAs. As of December 2016, the gross NPA stands at ₹6.9 lakh crore
AUGUST 2016: Bankruptcy & Insolvency Code
Gives power to banks to resolve outstanding bad debt issues in a time-bound and effective manner. Forms 10-member insolvency regulator
NOVEMBER 8, 2016: Demonetisation
Bans ₹500 and ₹1,000 notes with an aim to curb black money. Digital usage of money gets momentum
APRIL 2017: SBI-associate banks merger
State Bank of India starts enters global top-50 list after merging five associate banks and Bharatiya Mahila Bank with itself
MAY 2017: Ordinance amending RBI Act
This gave more power to the central bank to recover bad loans on a case-by-case basis
Also protects bankers in case a commercial decision goes awry by creating oversight committees
REPO RATE
(%)
8.00
6.25
Jun 3 '14
Apr 6 '17
₹ VS $
(inverted scale)
64.16
59.29
May 15 '14
May 17 '17
GROSS BAD DEBT OF 39 BANKS
(₹ lakh crore)
2,51,033.0
2,92,192.7
3,01,502.4
4,37,859.4
5,79,012.5
6,97,777.4
Jun 30
Dec
Mar '15
Dec '15
Mar '16
Dec '16
2014
Source: Bloomberg
Compiled by BS Research Bureau

- The present study aims to map the developments that were initiated in the year 2014 to give momentum to the banking industry
- There has been no looking back since, be it issuance of the bankruptcy and Insolvency code, 2016 or demonetisation followed by merger of SBI-associates with SBI or the ordinance amending the RBI act

- The period since 2014 has also seen steady shift to digital payment platforms which has improved efficiency of the Public Sector Banks
- Some of the achievements include
    - Unified Payments Interface (UPI) recorded 4.62 billion transactions worth Rs. 8.32 trillion (US$ 111.8 billion),
    - India's foreign exchange reserves reached US$ 630.19 billion as of February 18, 2022,
    - 2,04,000 point of sale (PoS) terminals sanctioned from the Financial Inclusion Fund by (NABARD)
    - The number of transactions through IMPS reached 430.67 million and amounted to Rs. 3.70 trillion (US$ 49.75 billion) in October 2021

REVIEW OF LITERATURE

Authors	**Year of Publication**	**Objectives and Methodology**	**Findings of the Study**
Ghosh, Gourab	2021	This paper is based on literature review on methods of digital payments, their use, frequency and the future of digital payment. The aim of the study is to see the reasons examined by differed authors for adoption of digital payment by people.	Reviewed papers suggest that people are using and accepting the digital payment system due to ease of use, incentives, and quick transactions.
Ranganayaki . S, Pavithra CB	2020	To investigate the demographic profile and digital payment patronage by the customers. To identify factors affecting customer perception towards adoption of digital payments.	The study indicated a steady inclination of the customers to adopt cashless modes of payment. Digital payments to be the future of fund transfer.
Mathur Dipin, Garg, Vartika	2020	To find the perceived benefits and challenges associated with cashless digital payments. To assess the awareness of customers about and the	Findings of the study indicate moderate level of customer satisfaction; however, the awareness level is uniform across

		most common uses of digital payment system.	age, gender and income level.
Kalavathy S, Regha V	2019	To study the developments and customer preference with reference to digitalization of payment systems in the context of Coimbatore city. Use of primary and secondary data, evaluation and testing using descriptive and inferential statistics	The survey revealed a favorable customer perception and high level of gratification associated with digital payment services.
Bhatt Vimal K, Kiran R	2019	To evaluate the opportunities and challenges in mobile banking for banks as well as customers. In addition, customer awareness and technological readiness was also examined. A questionnaire-based survey was conducted.	Banks need to resort to techniques like incentives and discounts in order enhance the availing of mobile banking techniques
Rajanna, K.A.	2018	To find the opportunities and challenges faced by digital payment systems.	The Indian government wants to promote mobile wallets. The study also emphasized the importance of licensing of payment banks. Major hinderance in converting the Indian economy into a fully digital economy is digital illiteracy, cyber security concerns, and high cost of internet.

Ozili, P.K.	2018	To understand the impact of digital finance on Fintech providers, which promotes financial inclusion in emerging as well as advanced economies.	Customers value the convenience associated with digital finance. The study highlighted challenges with respect to financial inclusion and stability. It is important to develop customer confidence to ensure acceptance of digital payments platform.
Singh, S	2017	This study evaluates how availability of internet, spurt in the number of smart phone users and demonetization have contributed towards the adoption of digital payment systems. ANOVA was used to study whether costumer perception towards digital payments varied significantly with respect to demographic factors.	The study predicted a steady expansion in the volume and value of digital payments and the impending opportunities for the digital wallet companies. The study concluded that there was no significant difference in the customer perception towards digital payments on the basis of demographic factors.
Ravi, CS	2017	This study examines the role of population residing in rural areas in the development of digital payment system. It also explores the government initiatives to create awareness about digitization and its adoption.	The study recommended UPIs, mobile wallets, and digital transactions with enhanced security features, ease of transactions and reduced cost of managing digital payments to improve use of digital payments processing in rural sectors. In addition, it

			highlighted the need to install requisite ICT infrastructure and increase awareness in rural areas to support digital payments and thus, reduce the digital divide.
Rajan, Ajay. K, Jassal Nitasha	2016	Explore challenges faced by banks in India, examining the antecedents, drivers and evaluation of efforts to consolidate holdings by means of Mergers and Acquisitions. Use of financial ratios and a survey of 277 bank managers was carried out to determine the relevant factors.	Banks in India have undergone major transformation and are resorting to consolidation with other entities to mitigate costs, increase the outreach and take advantage of technological advancements.
Sanghita Roy, Dr. Indrajit Sinha	2014	This paper discussed that in India there has been a sudden surge in the usage of digitalised payment. But still almost 90% transactions are completed with the help of paper currency. The authors used the TAM (Technology Acceptance Model) in this study to find out the factors which are strengthening the e-payment system.	The paper proclaims that the factors essential for successful adoption of digital payment system include innovation, incentives, legal frame work and customer convenience.
Tripathi P.S., Dikshit, Shweta	2007	To examine new areas that have been ventured by Public Sector banks and their subsequent performance. Secondary	Highlighted the need to develop a new character of the Indian banking system in the wake of competition from global

		data has been used to study the phenomenon.	markets, need for innovation and use of technology

OBJECTIVES OF THE STUDY

- To assess the growth and trends in digitization of banks in India
- To analyze customers' awareness, perception and satisfaction with reference to the e-services provided by selected banks
- To examine the socio-economic impact of digitization of banks
- To compare selected public and private sector banks with reference to digitisation

HYPOTHESES OF THE STUDY

- Digitisation of banks in India has not contributed significantly to overall growth
- Digitisation of banking services has no significant impact on customer satisfaction
- E-banking services have not significantly increased the socio-economic benefits for the masses
- The performance of public and private sector banks with reference to digitisation

METHODOLOGY

The trends in the banking sector and its progress over the period of the study will be traced and evaluated with reference to the following parameters:

- Policy Environment including the Monetary Policy and Liquidity Management, Prudential, Regulatory and Supervisory Policies, Credit Delivery and Financial Inclusion, Consumer Protection, & Payment and Settlement Systems
- Operations and Performance of banks through Balance Sheet Analysis, Financial Performance, Soundness Indicators, Sectoral Bank Credit Distribution and NPAs

Customer Awareness, Perception and Satisfaction

- Primary data to be collected using a formal, structured questionnaire
- The target respondents will comprise the customers of selected banks
- The contents of the questionnaire will be designed with a view to study and reveal the awareness, perception and satisfaction of customers towards the e-services being offered by selected banks
- The responses will be analysed using statistical tests in order to arrive at meaningful inferences
- Various schemes and initiatives of the government will be analysed and their trickle-down effect will be evaluated

DATA SOURCES

- Secondary sources like RBI published reports and data along with other bank related sources will be used to collect time series data
- Primary data to be collected using questionnaire administered to customers of selected banks
- Reports and studies carried out for identification of relevant indicators of changes in the banking industry
- Newspaper reports and popular articles containing statistics and opinions about latest trends in banking

ANALYSIS OF DATA

- Descriptive statistics to be used for analysing and assessing the growth patterns and latest trends relating to selected banks
- Inferential statistics to be used for testing of hypothesis associated with survey of customers. Statistical tests like Chi-square test, Mann-Whitney U test, Wilcoxon Signed Rank test, ANOVA will be used to test the hypothesis
- Policy initiatives and their impact to be evaluated for the purpose of devising suitable, practical recommendations to overcome challenges faced in the implementation of new schemes

SCHEME OF THE STUDY

- Chapter 1: Introduction
- Chapter 2: Review of Literature
- Chapter 3: Growth and Trends of selected banks in India
- Chapter 4: Customer Awareness, Perception and Satisfaction
- Chapter 5: Analysis of Data
- Chapter 6: Summary and Conclusions

SCOPE OF THE STUDY

- Time span of the study: from the year 2014 till date, it signifies the paradigm shift towards technology driven banking for social benefit
- Customers of selected banks in India will be approached for the purpose of the questionnaire-based survey
- Customer awareness, perception and satisfaction survey will be limited to Delhi-NCR region

LIMITATIONS OF THE STUDY

- The socio-economic impact of policy initiatives on quality of life of customers are not measured
- Despite best efforts the time series data may carry inherent bias or non-stationarity

- The outcomes of the study will be affected by limitations of the statistical tools and techniques used for obtaining the results
- The period for the study includes some duration which may be termed as extraordinary/shock period (March 2020 to June 2021) due to the prevailing Covid-19 pandemic
- Some of the data points during the study may be omitted to eliminate the adverse impact of the global pandemic situation

EXPECTED OUTCOMES OF THE STUDY:

- The emerging trends in digital payments indicate that the government and banks are focused on increasing the outreach and ease of banking
- Analysis customers' awareness, perception and satisfaction with reference to the e-services provided by banks is likely to reveal a high level of use of digital payment systems
- Public as well as private sector banks have played a pivotal role in percolating the benefits of socio-economic policy initiatives to the grassroot level

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